Garanti

**BRSA Bank-Only Earnings Presentation**

September 30, 2009

# 3Q 2009: Crystallizing expectations of a turnaround in 2H 09

## Across the globe, positive economic data offered a hint that the worst of the financial crisis has passed, though the after-effects might persist for some time

- US and EU economies contracted by an annual pace of ~1% in 2Q versus 5-6% shrinkage in 1Q. Japan returned to growth, its economy grew by 3.7% versus a severe contraction of 11.5% in 1Q
- Ample liquidity sustained by major central banks
- Though the labor market worsened, the pace of deterioration remained markedly slower than during the early months of the year

## Turkish economy's sharp decline leveled off

- After the revised **1Q09 GDP** contraction of **14.3**%, Turkish economy shrank by **7%** in **2Q09**
- 12-month C/A deficit fell to US$ 20.7 billion as of 2Q09 from US$ 41.7 billion in 2008-year end
- **CPI** decreased to **5.3%** at the end of 3Q09, the lowest level since July 1970, **down from 10.1%** as of YE '08
- Government extended the deadline of **economic stimulus package**, however narrowed down the scope

## CBT's monetary policy expected to maintain an easing bias for a long period of time

- CBT cut policy rate by **775 bps** to 7**.25%** as of end of 3Q09 from **15%** at the end of 2008

## Medium-Term Program, IMF talks and outlook upgrades

- Government's long awaited Medium-Term Program was announced mid-September. As the credibility of the Program increases, it is possible that Turkey can secure the capital inflows to maintain growth rates above 4%
- IMF talks continue… The value of IMF insurance is decreasing but an agreement would help Turkey to upload both the credibility and the capital inflows and hence reach higher GDP levels faster
- Moody's upgraded Turkey's rating outlook from Stable to Positive and S&P from Negative to Stable

# 3Q 2009 Highlights -- Financial strength reinforced w/ solid underlying business

## Solid balance sheet yielding recurrent earnings

- **Stellar earnings** performance:
  - Y-o-y **earnings growth 52%** & **ROAE 26% --** including conservative provisioning (TL 265 mn free provisions booked in the first nine months)

- **Liquid asset** mix (Liquidity ratio - 38%) – Actively managed and well diversified

- Lending activity picking up pace with focus on **low risk and profitable growth**
  - Loan market share gains: TL loans 12% (+41bps) and FC loans 22% (+86bps)

- Continued **focus on risk-return balance**
  - NPL formation leveling-off and higher collections
  - Limited write-offs ➡ The wide gap vs. Sector maintained.. Garanti NPL: 4.1% vs. Sector NPL: 5.2%

- **Well managed funding mix** reinforced with long-term TL borrowings and free funds.
  - High free equity generation capacity (41% growth ytd) and strong solvency (CAR at 18.8%)
  - Demand deposit growth at triple the pace of sector's – Market share at 17%
  - TL 1.3 bn in long-term repo funding booked ytd at low fixed rate

- **Margin pressure minimized** with active B/S management

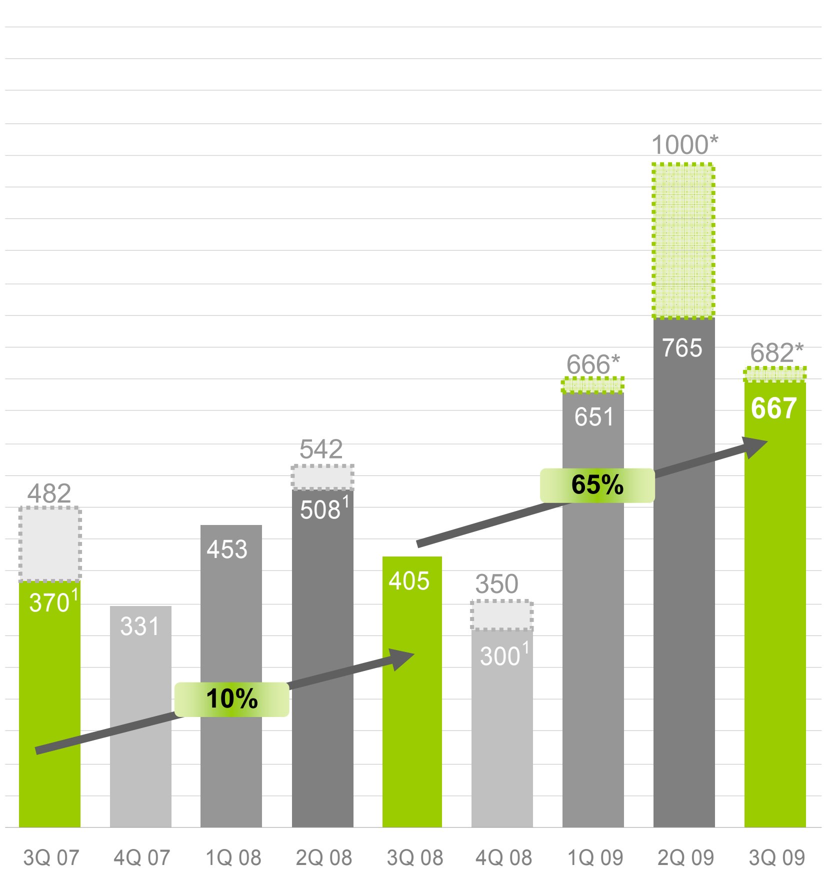
- Focus on **cost discipline remains** while investment in retail network expansion continues, # of branches >750*



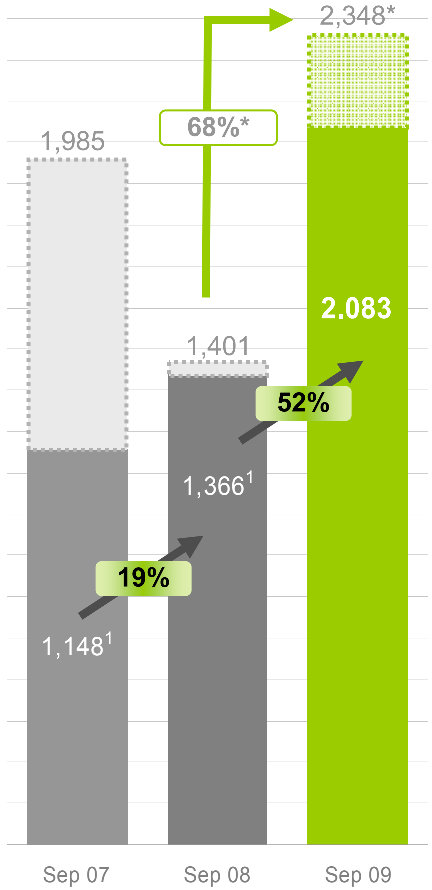
* As of November 2009

# Stellar earnings performance -- result of liquid, low-risk, & well-capitalized B/S

## Quarterly Normalized Net Income[1]




## Normalized Net Income[1]




Non-recurring items General reserves

**Earnings[1]**
Y-o-Y

52%

**ROAE**

26%

Excluding m-t-m gains on equity & general reserves ROAE would be

31%



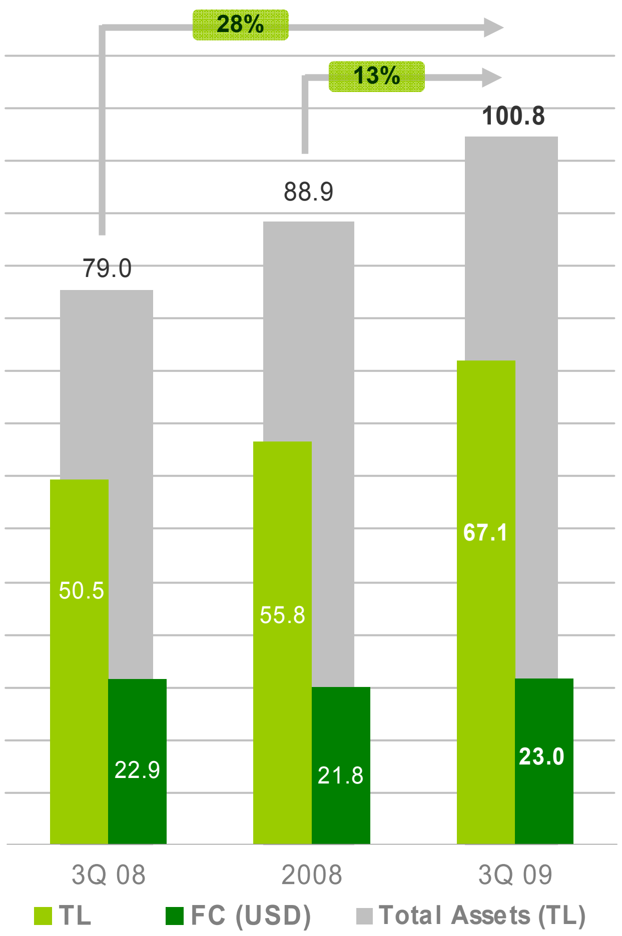
1 Please refer to Slide 23 for breakdown of non-recurring items

* Net income excluding the effect of general reserve of TL 265mn (1Q 09: TL 15mn; 2Q 09: TL 235mn; 3Q 09: TL 15mn) provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions, and fully recognized as expense in the current period

# More liquid asset mix...

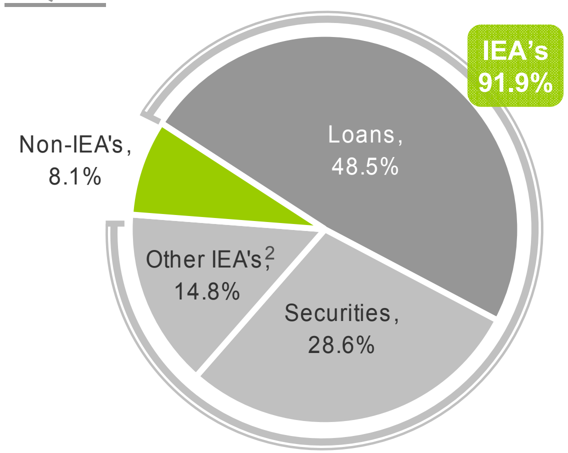
## Total Assets

TL / USD Billion

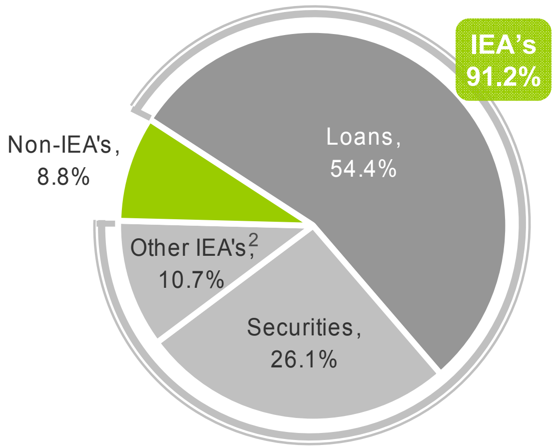



## Composition of Assets[1]

3Q 09




2008




## Ytd Growth in:

*TL Assets*

*20%*

*FC Assets ($)*

*6%*

## Liquidity Ratio[3]

38%

up from 29% at YE 08

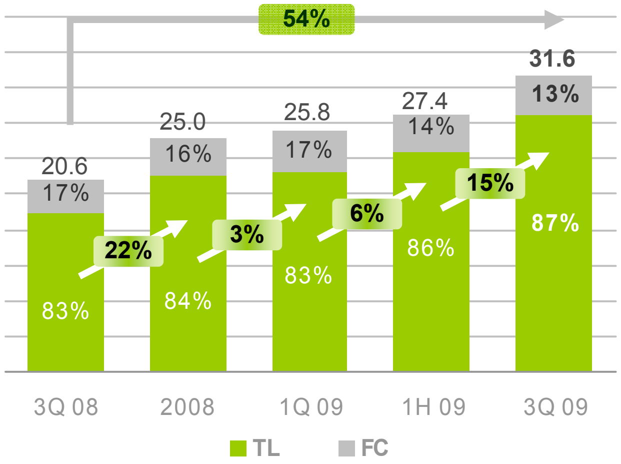


1 Accrued interest on B/S items are shown in non-IEAs
2 Other IEA's include factoring and leasing receivables
3 (Cash and banks + trading securities +AFS) / Assets

# ...on the back of volume growth in fixed rate AFS securities -- limiting margin pressure

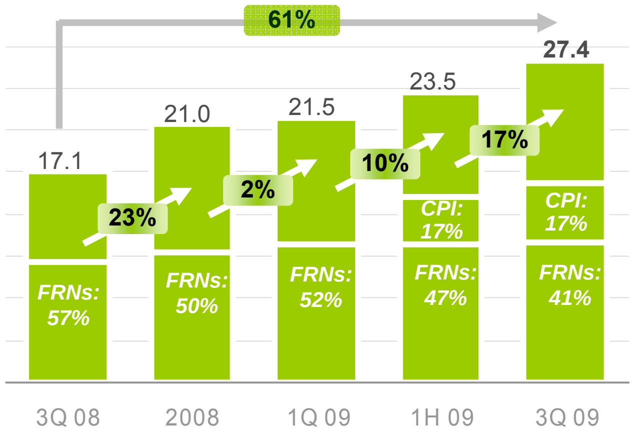
## Total Securities

TL Billion




## TL Securities

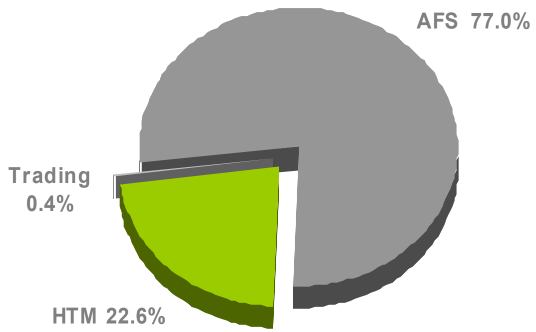
TL Billion




Securities mix in assets

29%

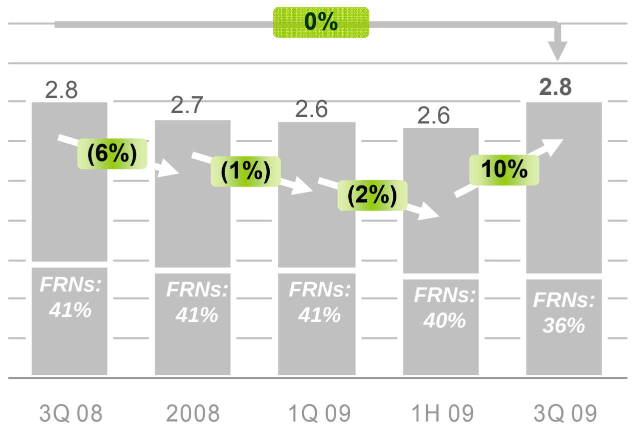
## Total Securities Composition




Unrealized gain ~TL 1.9 bn*

## FC Securities

US$ Billion




AFS mix in total

77%

from 69% at YE 08

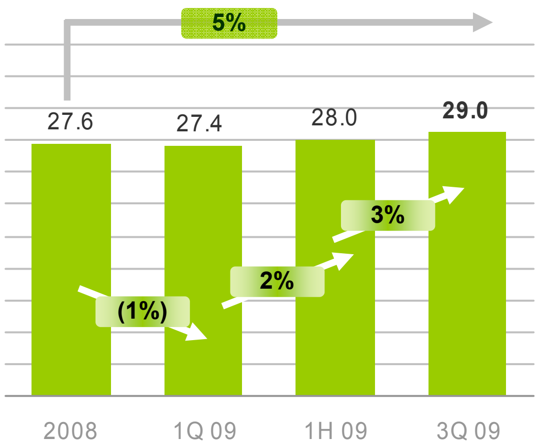


Note: Fixed / Floating breakdown of securities portfolio is based on bank-only MIS data
* Gross amount of MtM gains of AFS book, the net amount affecting equity is included in “Securities Value Increase Fund” of TL 1,549 mn. Pls. refer to Liabilities and Shareholders’ Equity section of the Financial Statements

# Lending picking up pace…

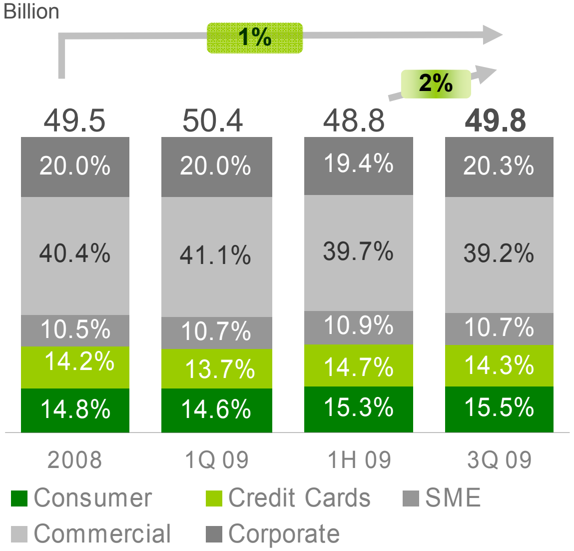
## TL Loans[1]

TL Billion




## Loans by LOB[1, 2]

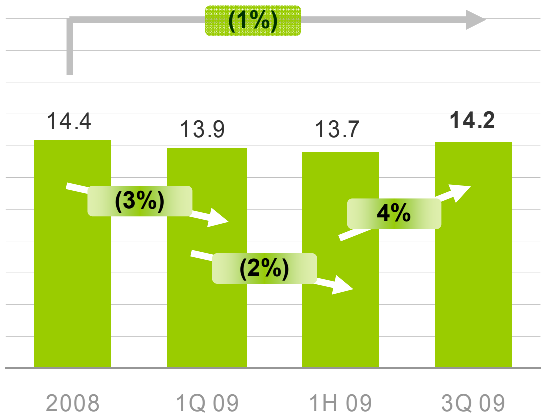
TL Billion



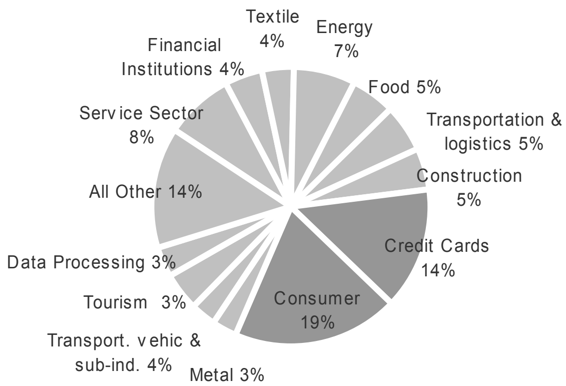

*Lending growth in 3Q 09 mainly driven by Corporate, Commercial and Consumer lines of business*

## FC Loans[1]

US$ Billion




## Loans by Sectoral Breakdown[1]




## Market Shares

| | YTD ∆ | Sep 09 |
|---|---|---|
| **Total Loans** | +25 bps ↑ | 14.9% |
| **TL Loans** | +41 bps ↑ | 12.0% |
| **FC Loans** | +86 bps ↑ | 21.9% |

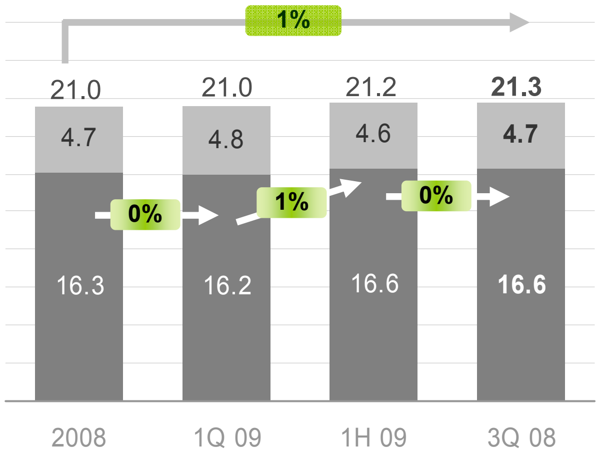


1 Performing cash loans
2 Based on bank-only MIS data
Source: Sector figures are based on BRSA weekly data, commercial banks only

# ...Salient in retail: mortgage loans & GPL

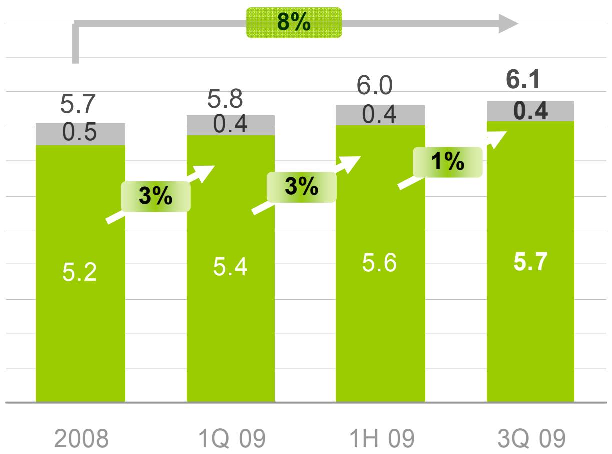
## Retail Loans[1]

TL Billion




## Mortgage Loan Growth

TL Billion

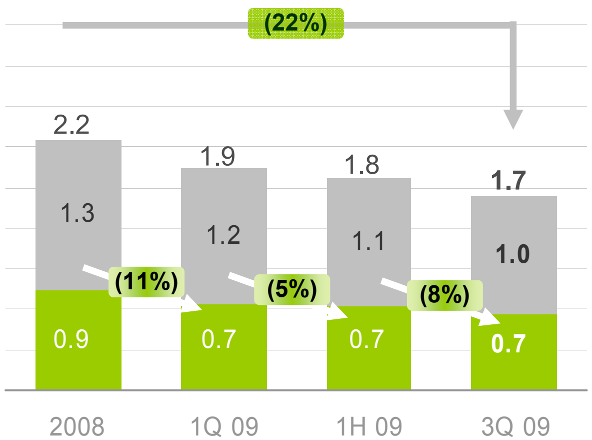



Consumer Loans
Commercial Installment Loans

*The attractive mortgage spreads secured with fixed long-term TL funding*

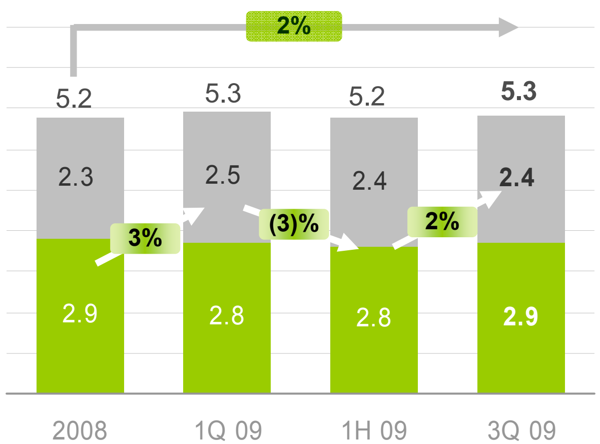
## Auto Loan Growth

TL Billion




## General Purpose Loan Growth

TL Billion




## Market Shares[2,3]

| | YTD ∆ | Sep 09 |
|---|---|---|
| Mortgage | +60 bps ↑ | 14.6% |
| Auto | +30 bps ↑ | 15.3% |
| General Purpose | -40 bps ↓ | 9.5% |
| Retail[1] | -10 bps ↓ | 13.7% |

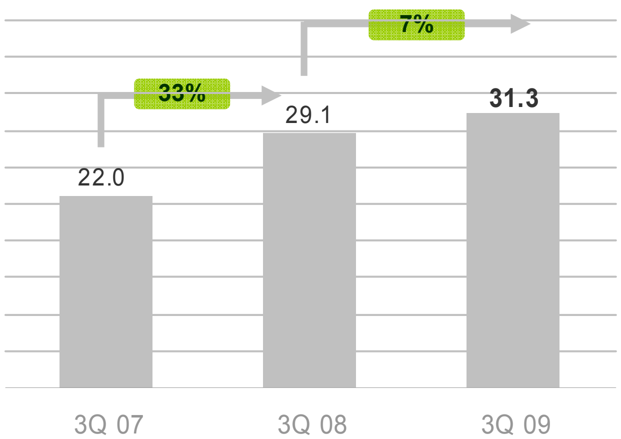


1 Including consumer, commercial installment, overdraft accounts, credit cards and other
2 Including consumer and commercial installment loans
3 Sector figures are based on bank-only BRSA weekly data, commercial banks only

# Parallel to consumer sentiment, relatively limited growth in credit card activity

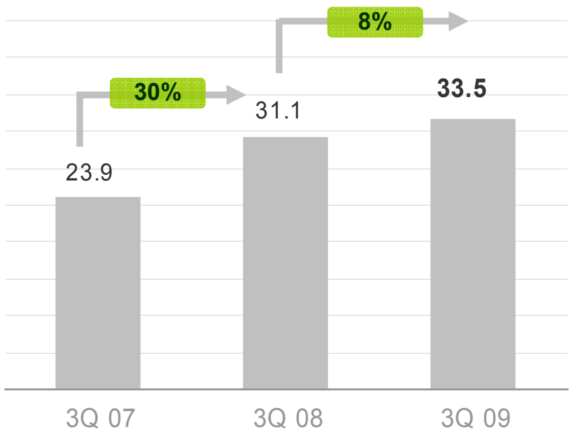
## Issuing Volume

TL Billion




## Acquiring Volume

TL Billion

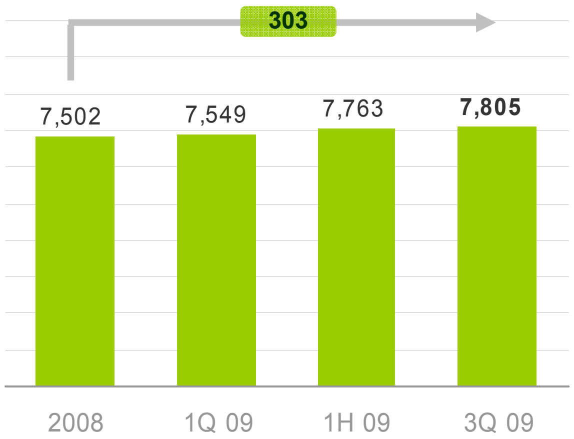



*#1 in Acquiring Volume*

*& Strong #2 in Issuing Volume*

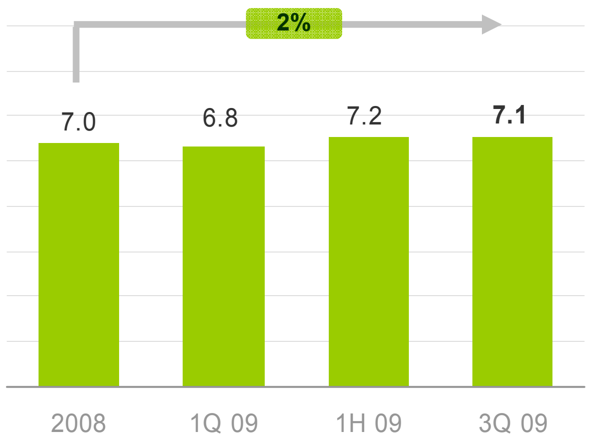

## No. of Credit Cards

In Thousands




## Credit Card Balances

TL Billion




## Market Shares

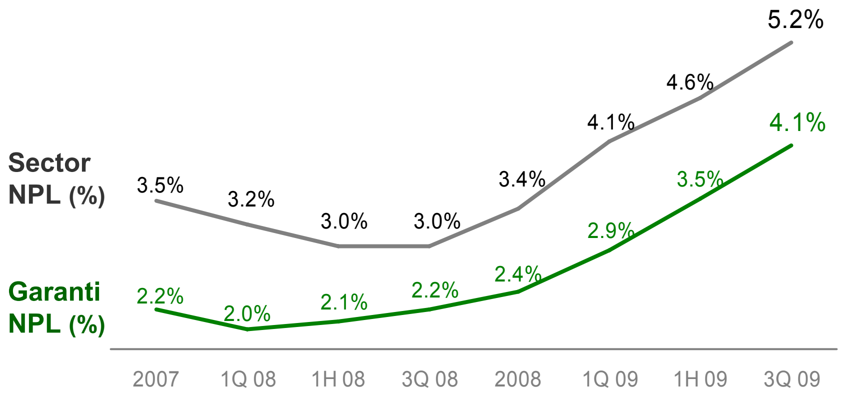
| | YTD Δ | Sep 09 | Rank |
|---|---|---|---|
| Acquiring | -20 bps | 22.1% | #1 |
| Issuing | -25 bps | 20.9% | #2 |
| # of Credit Cards | +50 bps | 17.8% | #1 |
| POS[1] | 60 bps | 20.6% | #1 |
| ATM | -30 bps | 11.4% | #2 |



1 Including shared POS
2 Annualized

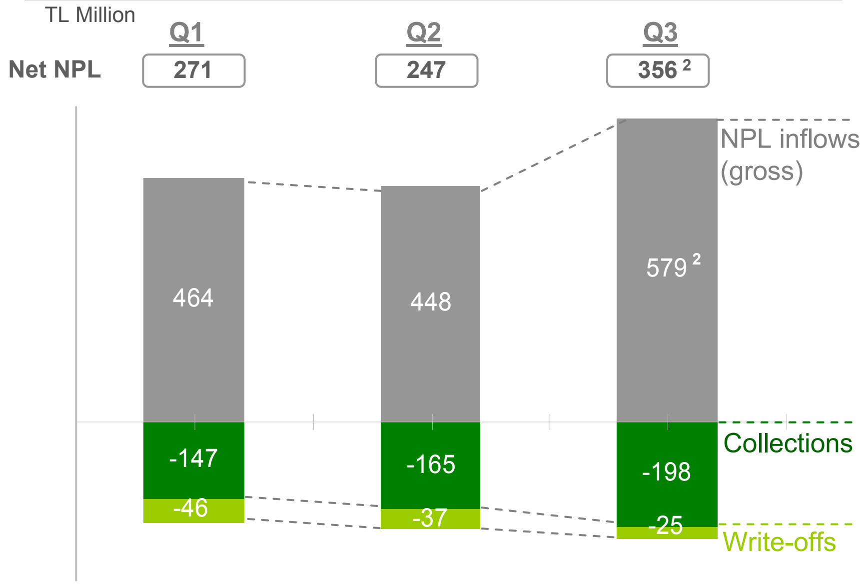
# NPL ratio rising... but still the wide gap vs. sector remains

## NPL Ratio[1]




Note: 2008 sector NPL includes a total of 1.4 bn **NPL sales** & **write-offs**

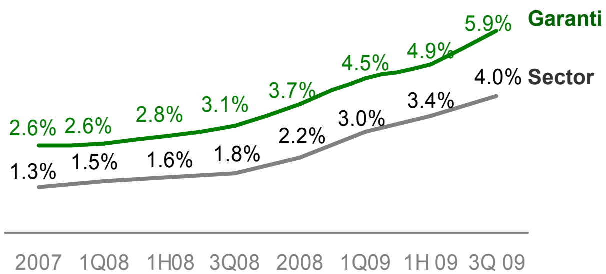
## Net NPLs on a quarterly basis




## NPL Categorisation[1]

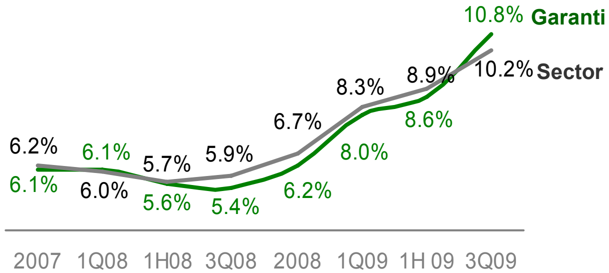
**Retail Banking (Consumer & SME Personal)**

*19% of Garanti's Total Loans*



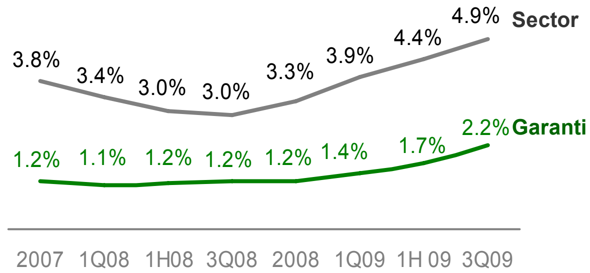

**Credit Cards**

*14% of Garanti's Total Loans*




**Business Banking (Including SME)**

*67% of Garanti's Total Loans*





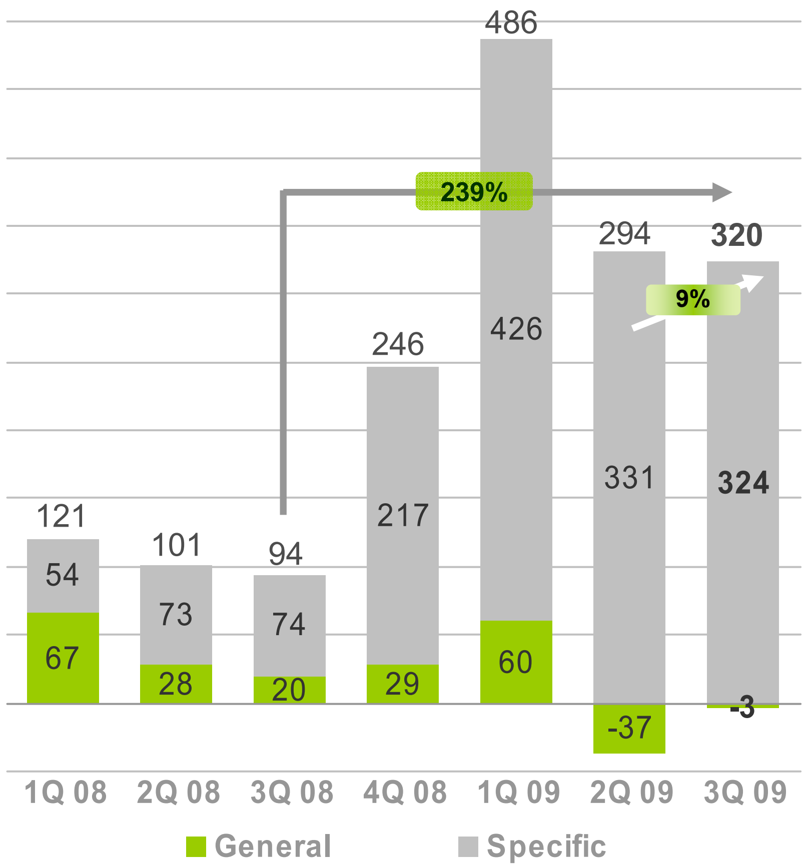

1 Sector figures are per BRSA bank-only data
2 Including a few files in commercial book to be fully recovered due to highly strong collateralization
Note: Pre-NPL restructurings totaled TL 211mn and NPL restructurings totaled TL 520mn. NPL restructurings had no effect on NPL ratio as they are not yet classified as performing
Source: BRSA, TBA & CBT

# Continue to reinforce provisions -- coverage at sector average

## Quarterly Loan-Loss Provisions

TL Million

| *Coverage Ratio* | Dec 08 | Mar 09 | Jun 09 | Sep 09 |
|---|---|---|---|---|
| Sector[1] | 81% | 81% | 81% | 82% |
| Garanti | 64% | 76% | 82% | 82% |




## Coverage Ratio

# 82%

*More conservative approach*

*temporary rise in*

*loan-loss provisions in 2009*

## Cost of risk

**387 bps** in 1Q 09,

**315 bps** in 1H 09,

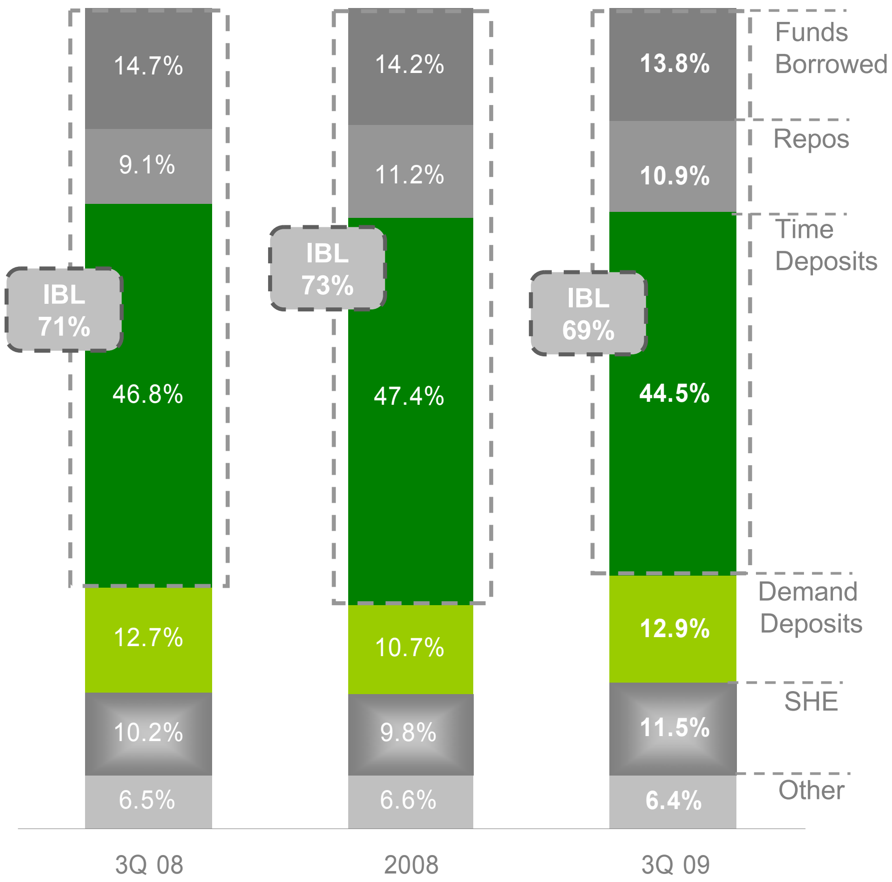
**~290 bps** as of Sep 09



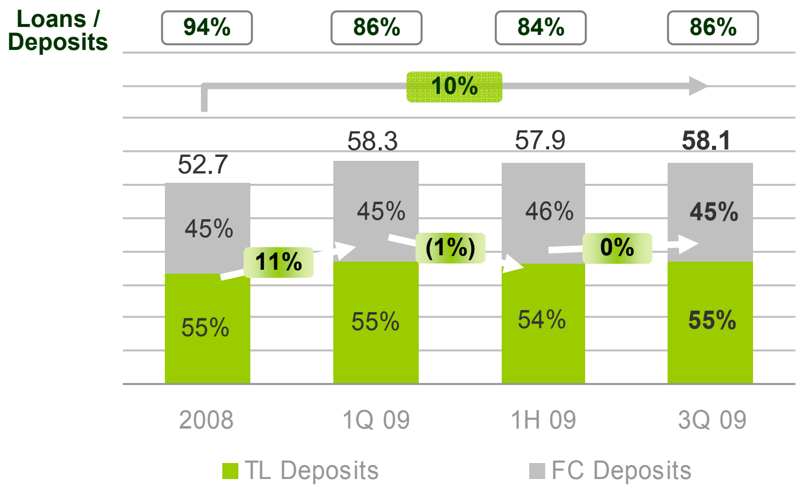
1 Sector figures are per BRSA weekly data, commercial banks only

# Well-managed funding mix reinforced with long-term TL borrowings & free funds

## Composition of Liabilities




## Total Deposits




*Ytd deposit growth at twice the pace of the sector's*

*TL deposit growth* ***10%*** *vs. sector's* ***4%***

*FC deposit growth* ***15%*** *vs. sector's* ***11%***



Note: Sector figures are per BRSA weekly data, commercial banks only

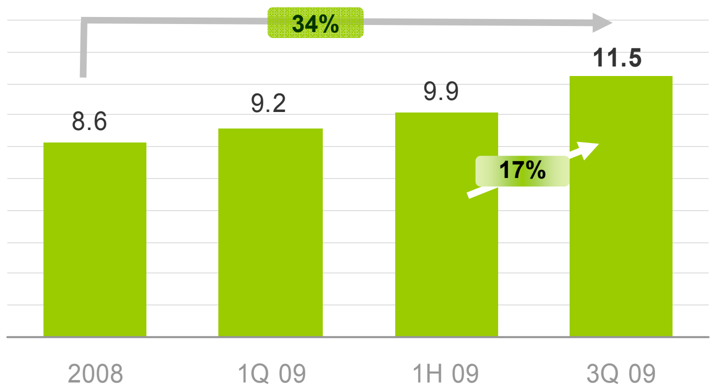
# Demand deposit growth at triple the pace of sector's...

## Deposits by LOB[1]

(Excluding bank deposits)

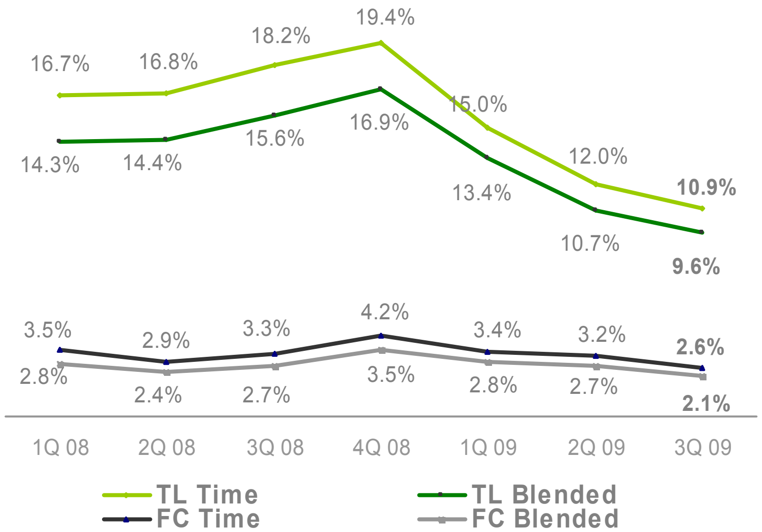

## Demand Deposits

TL Billion




## Cost of Deposits[1]

Quarterly Averages




## Demand Deposits

Ytd Growth

34% vs.

Sector's 12%

## Demand Deposit Market Share[2]

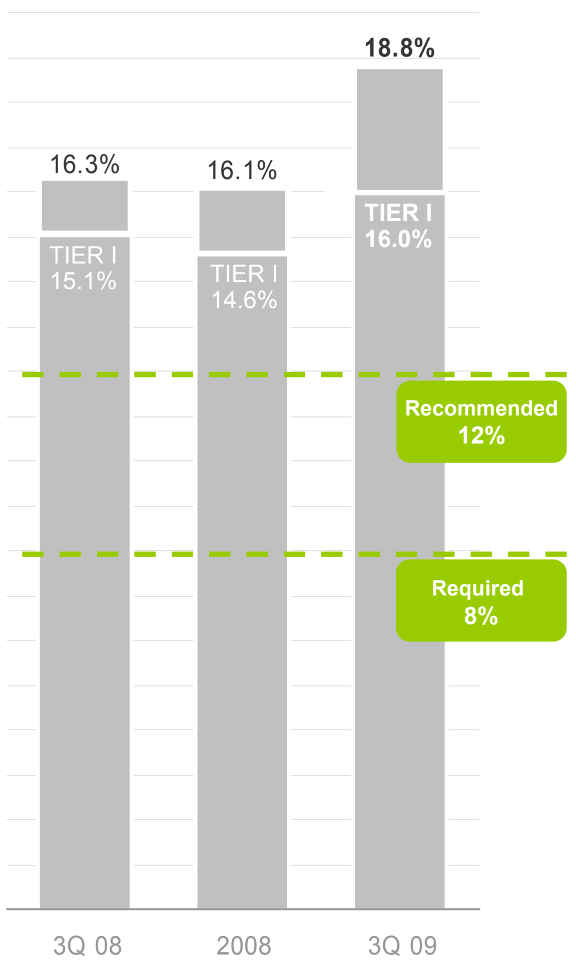
17%



1 Based on bank-only MIS data
2 Sector figures are per BRSA weekly data, commercial banks only

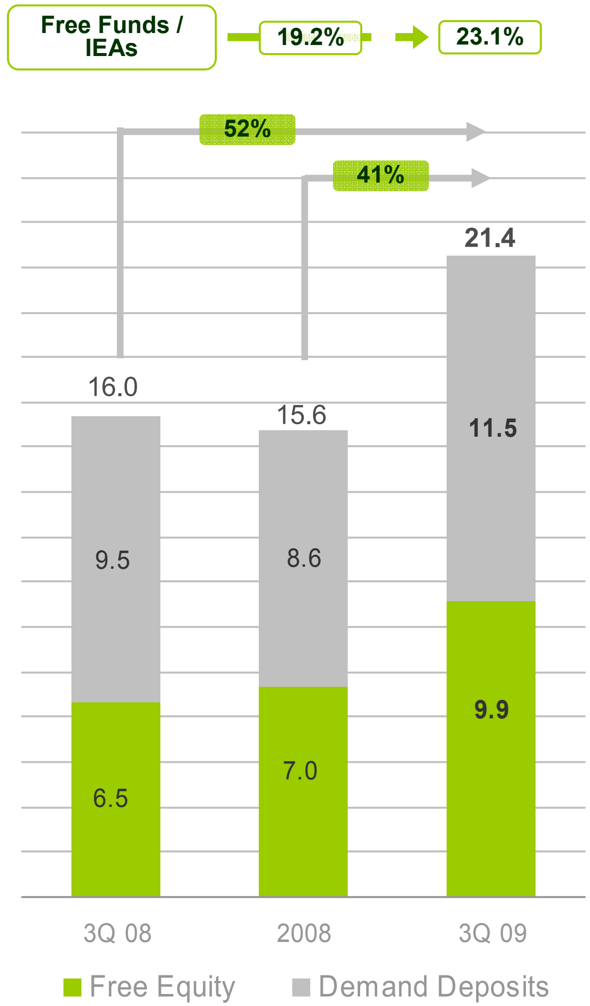
# ...plus the high capacity to generate free equity minimize the margin pressure

## CAR




## Free Funds

TL Billion (Free Funds = Free Equity + Demand Deposits)




## Free Equity

Ytd

41%

## Leverage Ratio

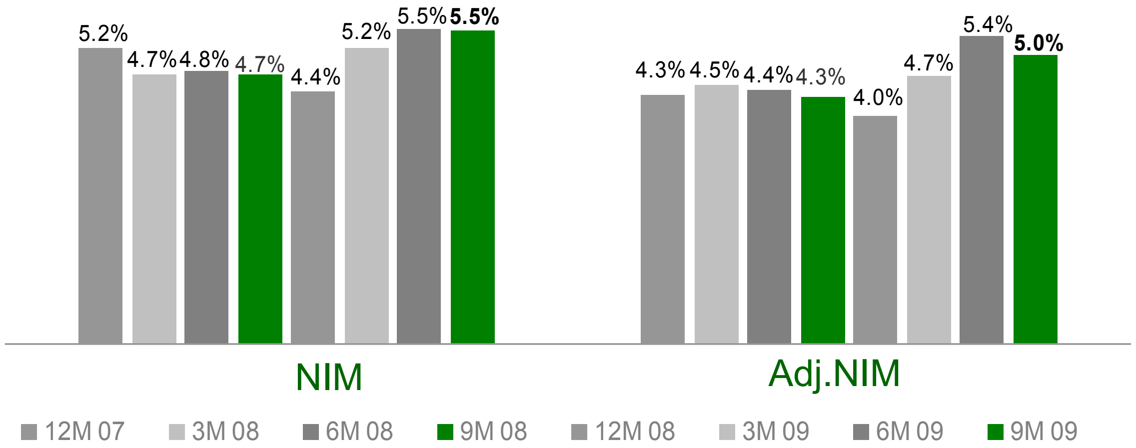
7x

down from **8x** in 1Q 09 and at YE 08

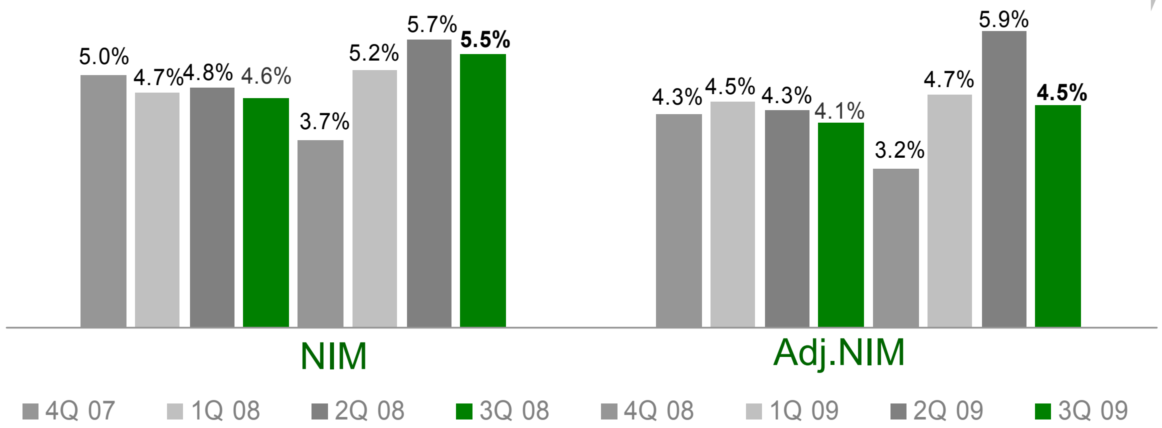
Well positioned for future growth

# Sustained margin vs. first half of the year despite pressure resulting from repricing of securities book

## Cumulative NIM (Net Interest Income / Average IEAs)




## Quarterly NIM (Net Interest Income / Average IEAs)




***Sep 09 over 1H 09:***

- *Declining funding costs' impact on margin +60 bps*
- *Drop in asset yields' impact on margin -60 bps*

Prudent provisioning remains
Trading and FX gains cover smaller portion of provisions in 3Q

***3Q 09 over 2Q 09:***

- *Declining funding costs' impact on margin +80 bps*
- *Drop in asset yields' impact on margin -100 bps*



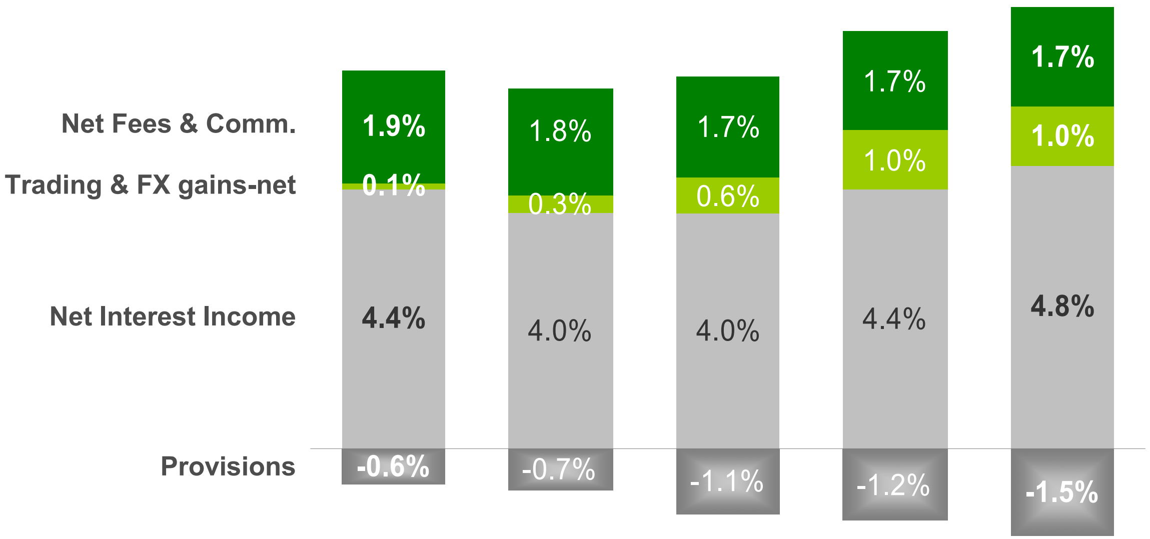
Source:BRSA bank-only financials
Adjustments to NIM: Net Interest Income/ Average IEA adjusted by FX gain/loss, provision for loans and securities, and net trading income/loss

# Regardless of the economic cycles, sustainable revenue components prevail

## Ordinary Banking Income[1] Breakdown

*% of Average Interest Earning Assets*

| | Sep 08 | Dec 08 | Mar 09 | Jun 09 | Sep 09 |
|---|---|---|---|---|---|
| Ordinary Banking Income | **5.9%** | 5.4% | 5.3% | 5.9% | **6.1%** |




| | Sep 08 | Dec 08 | Mar 09 | Jun 09 | Sep 09 |
|---|---|---|---|---|---|
| Loan growth (yoy) | **34%** | 34% | 18% | 10% | **8%** |
| ROAE | **24%** | 21% | 27% | 28% | **26%** |
| Cost/Income | 50.3% | 53.7% | 37.3% | 36.5% | 38.2% |

## Ordinary Banking Income[1]

9 Mo '09 over 9 Mo '08

39%

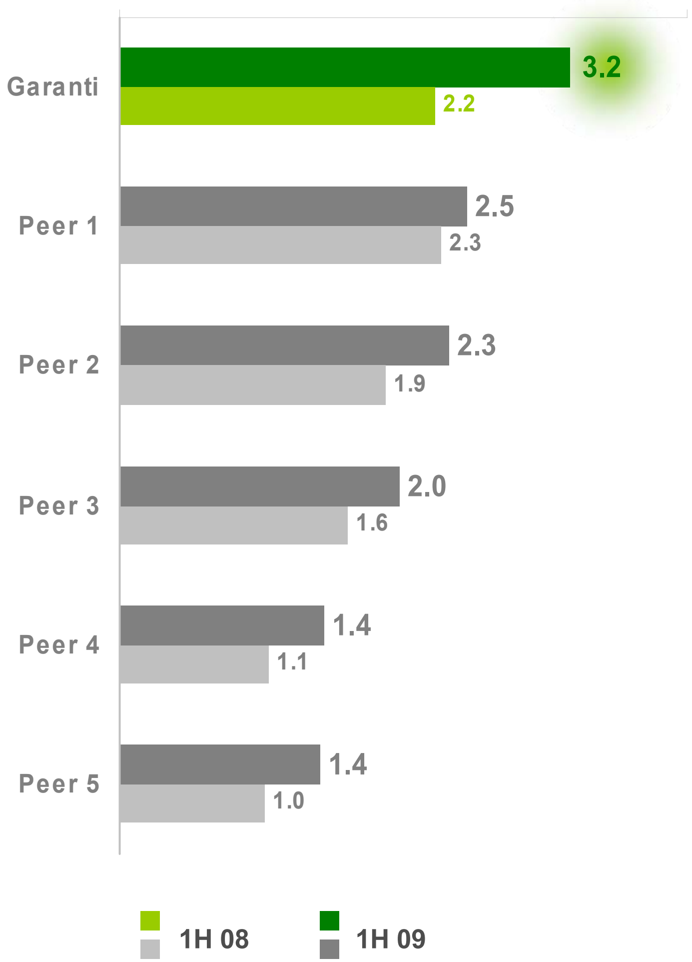


1 Ordinary Banking Income is defined as; net interest income adjusted with provisions for loans and securities, net FX and trading gains + net fees and commissions

# Ordinary banking income generation capacity outperforms the sector

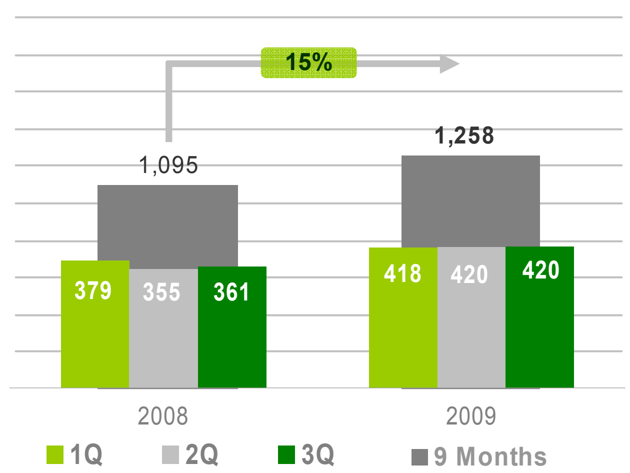
## Ordinary Banking Income[1] Generation

TL Billion




## Net Fees & Commissions[2]

TL Million



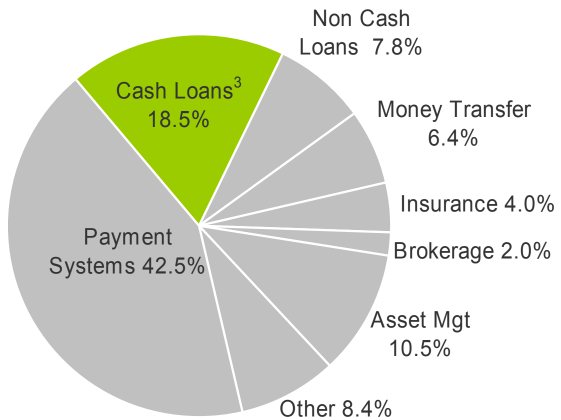

In 2009, captured **1 out of 4** entrants to the pension system

**#1** in bancassurance

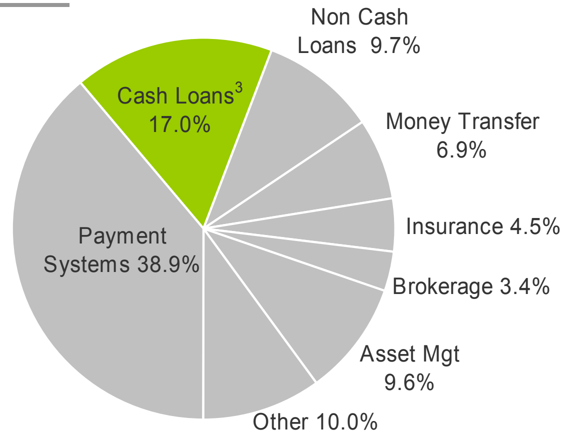
Brokerage market share increased to **7%**

## Net Fees & Commissions Breakdown[2,4]

9M 08




9M 09






1 Defined as; net interest income adjusted with provisions for loans and securities, net FX and trading gains + net fees and commissions
2 As per new BRSA classification in P/ L, excludes net fees and commissions received from cash loans amounting TL 100 mn for 9M 09 and TL 79 mn for 9M 08
3 Include consumer loans fees as well as other cash loan fees now classified as interest on loans in income statement amounting TL 100 mn for 9M 09 and TL 79 mn for 9M 08
4 Bank-only MIS data

# Again the results reflect the solid business model

| *(TL Million)* | 9 Mo '08 | 9 Mo '09 | Growth |
|---|---|---|---|
| **Ordinary Banking Income** | 3,325 | 4,632 | 39% |
| **Other Income*** | 164 | 183 | 12% |
| **Total Revenue*** | **3,489** | **4,815** | **38%** |
| **Operating Expense*** | **(1,753)** | **(1,840)** | **5%** |
| *Personnel Expense* | *(658)* | *(666)* | *1%* |
| *Bonus Provision* | *(125)* | *(105)* | *(16%)* |
| *Rent Expense* | *(78)* | *(97)* | *24%* |
| *Communication Expense* | *(98)* | *(96)* | *(3%)* |
| *Other* | *(794)* | *(876)* | *10%* |
| **Operating Income*** | **1,736** | **2,975** | **71%** |
| **Other Provisions** | (3) | (315) | n.m. |
| *General Reserves[1]* | - | *(265)* | *n.m.* |
| *Other* | *(3)* | *(50)* | *n.m.* |
| **Taxes*** | (366) | (577) | 58% |
| **Normalized Net Income** | **1,367** | **2,083[1]** | **52%** |
| Non-recurring Items | 34 | - | n.m. |
| **Net Income** | **1,401** | **2,083** | **49%** |

52%

**Net Income[1] Growth***

Y-o-Y

*Cost / Income*

*38.2%*



1 Net income including the effect of general reserve of TL 265mn provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions, and fully recognized as expense in the current period

* Normalized, please refer to slide.23 for non-recurring items

# Appendix

# Balance Sheet - Summary

| | *(TL Million)* | 2008 | Sep 09 | YTD Change |
|---|---|---|---|---|
| Assets | Cash & Banks[1] | 8,560 | 13,585 | 59% |
| | Reserve Requirements | 1,773 | 1,928 | 9% |
| | Securities | 24,993 | 31,597 | 26% |
| | Performing Loans | 49,457 | 49,754 | 1% |
| | Fixed Assets & Subsidiaries | 1,940 | 2,024 | 4% |
| | Other | 2,218 | 1,923 | (13%) |
| | Total Assets | 88,941 | 100,811 | 13% |
| Liabilities & SHE | Deposits | 52,715 | 58,111 | 10% |
| | Repos | 10,703 | 12,142 | 13% |
| | Borrowings | 11,625 | 13,065 | 12% |
| | Other | 4,429 | 5,127 | 16% |
| | SHE | 9,469 | 12,366 | 31% |
| | Total Liabilities & SHE | 88,941 | 100,811 | 13% |



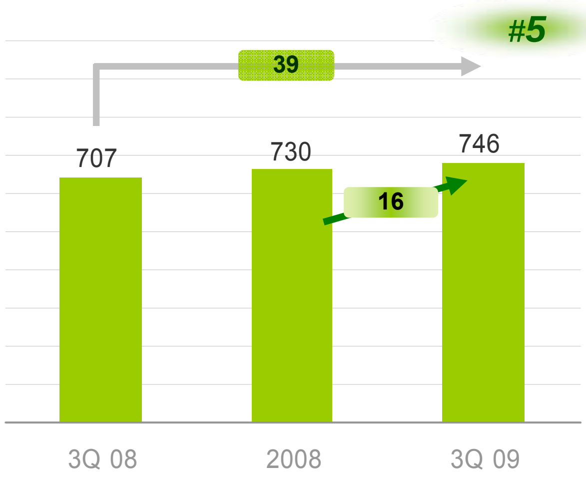
1 Includes banks and other financial institutions

# Quarterly Analysis of Ordinary Banking Income

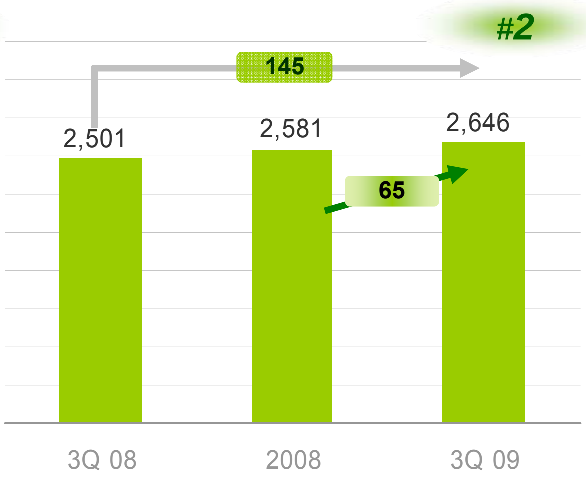
| *(TL Thousand)* | 3Q 08 | 4Q 08 | 1Q 09 | 2Q 09 | 3Q 09 | ∆ Q-o-Q 1Q 09 -2Q 09 | ∆ Q-o-Q 2Q 09 - 3Q 09 | ∆ Y-o-Y 3Q 08 - 3Q 09 | ∆ Y-o-Y 9M'08 - 9M'09 |
|---|---|---|---|---|---|---|---|---|---|
| **Interest Income** | **2,371,720** | **2,802,565** | **2,766,710** | **2,638,534** | **2,505,454** | **(4.6%)** | **(5.0%)** | **5.6%** | **20.3%** |
| -Loans | 1,439,576 | 1,690,636 | 1,667,557 | 1,530,435 | 1,434,051 | (8.2%) | (6.3%) | (0.4%) | 13.9% |
| -Securities | 763,748 | 940,732 | 959,374 | 980,674 | 952,332 | 2.2% | (2.9%) | 24.7% | 43.6% |
| -Other | 168,396 | 171,197 | 139,779 | 127,425 | 119,071 | (8.8%) | (6.6%) | (29.3%) | (21.9%) |
| **Interest Expense** | **(1,535,513)** | **(2,055,802)** | **(1,660,457)** | **(1,355,325)** | **(1,227,094)** | **(18.4%)** | **(9.5%)** | **(20.1%)** | **2.4%** |
| -Deposits | (1,076,891) | (1,408,748) | (1,236,950) | (1,006,396) | (892,974) | (18.6%) | (11.3%) | (17.1%) | 7.8% |
| -Funds Borrowed | (167,737) | (208,840) | (165,803) | (168,565) | (166,773) | 1.7% | (1.1%) | (0.6%) | (0.7%) |
| -Interbank & Other | (290,885) | (438,214) | (257,704) | (180,364) | (167,347) | (30.0%) | (7.2%) | (42.5%) | (17.1%) |
| **Net Interest Income** | **836,207** | **746,763** | **1,106,253** | **1,283,209** | **1,278,360** | **16.0%** | **(0.4%)** | **52.9%** | **50.9%** |
| **Prov. for loans & securities** | (93,888) | (246,472) | (486,486) | (293,627) | (320,276) | (39.6%) | 9.1% | 241.1% | 247.7% |
| **Net FX Gain/(Loss) + Net trading Income/(Loss)** | 4,987 | 136,336 | 384,665 | 337,728 | 83,771 | (12.2%) | (75.2%) | 1,579.7% | 601.1% |
| **Adj. Net Interest Income** | **747,306** | **636,627** | **1,004,432** | **1,327,310** | **1,041,855** | **32.1%** | **(21.5%)** | **39.4%** | **51.3%** |
| **Net Fees and Comm.** | 360,913 | 345,910 | 417,919 | 419,826 | 420,473 | 0.5% | 0.2% | 16.5% | 14.9% |
| **Ordinary Banking Income** | **1,108,219** | **982,537** | **1,422,351** | **1,747,136** | **1,462,328** | **22.8%** | **(16.3%)** | **32.0%** | **39.3%** |

# Continuous strengthening in retail

## Number of Branches




## Number of ATMs




## Number of POS

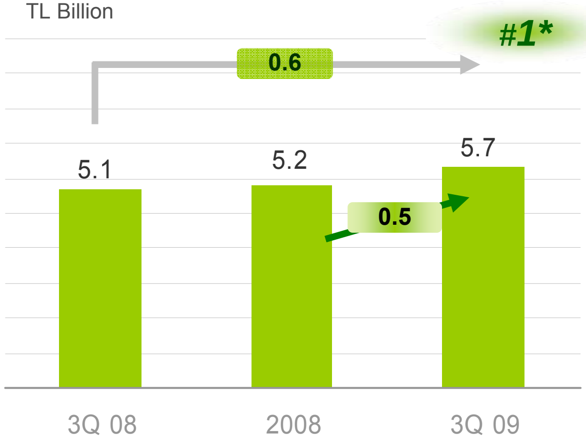
Thousands


## Number of Customers

Millions

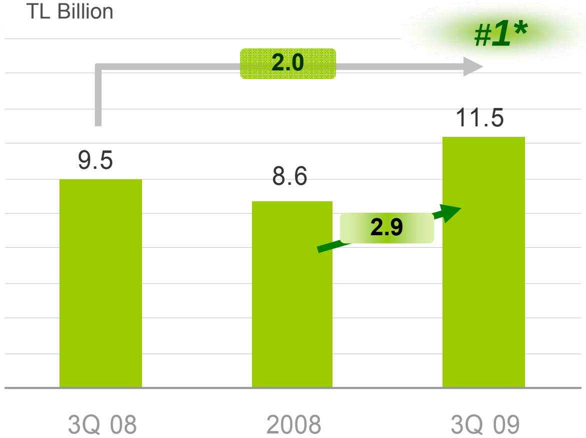

## Mortgages

TL Billion




## Demand Deposits

TL Billion






* Mortgage and demand deposit ranks are as of 1H 09

# Non-recurring items

**4Q 08:**

The net income resulting from the non-recurring items amounts to **TL +50 mn**., breakdown of which is;

i) Other income: **TL +62 mn** of reversal from Defined Benefit Obligation

ii) Taxation expense: Deferred tax expense of **TL -12 mn** related to TL +62 mn of reversal from Defined Benefit Obligation

**2Q 08:**

The net income resulting from the non-recurring items amounts to **TL +34 mn**, breakdown of which is;

i) Other income: Tax refund that the Bank collected through conciliation from the tax office, due to the prepaid taxes in 2005, **TL +131 mn**

Tax refund on an existing unused investment incentive certificate **TL+6 mn**

Proceeds from NPL sales **TL+29 mn**

Reversal of free provisions set in 1Q 08 of **TL -131 mn** –reducing other income

ii) Other expense: Defined Benefit Obligation: **TL -165 mn**

iii) Other provisions: Reversal of free provisions set in 1Q 08 of **TL +131 mn** –reducing other provisions

ii) Taxation expense: Tax credit resulting from the deferred tax asset calculated on defined benefit obligation liability **TL +33 mn**

**1Q 08:**

The effect of the net income resulting from the non-recurring items to bottom line is **0**, breakdown of which is;

i) Other income: Tax refund that the Bank collected through conciliation from the tax office, due to the prepaid taxes in 2005, **TL +131 mn**

ii) Other provisions: Free provisioning of **TL +131 mn**

**3Q 07:**

The net income resulting from the non-recurring items amounts to **TL +112 mn**, breakdown of which is;

i) Other income: Gains from custody sale **TL +148 mn**

ii) Other expense: Banking Insurance and transaction tax related to custody sale **TL -7 mn**

iii) Taxation expense: Tax expense of custody sale **TL -28 mn**

**2Q 07:**

The net income resulting from the non-recurring items amounts to **TL +724 mn**, breakdown of which is;

i) Other income: Gains from insurance and pension & life business subsidiaries stake sale **TL +762 mn**

iii) Taxation expense: Tax expense of insurance and pension & life business subsidiaries stake sale **TL -38 mn**

Garanti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